

This record is a partial extract of the original cable. The full text of the original cable is not available.

050106Z May 05

UNCLAS SECTION 01 OF 03 TAIPEI 002026

SIPDIS

SENSITIVE

STATE PLEASE PASS AIT/W AND USTR

STATE FOR EAP/RSP/TC, EAP/EP AND EB/IFD/OIA

USTR FOR SCOTT KI

USDOC FOR 4420/USFCS/OCEA/EAP/LDROKER
USDOC FOR 3132/USFCS/OIO/EAP/ADAVENPORT
TREASURY FOR OASIA/ZELIKOW AND WISNER
TREASURY PLEASE PASS TO OCC/AMCMAHON
TREASURY ALSO PASS TO FEDERAL RESERVE/BOARD OF
GOVERNORS, AND SAN FRANCISCO FRB/TERESA CURRAN

E.O. 12958: N/A

TAGS: [EINV](#) [EFIN](#) [ECON](#) [PINR](#) [TW](#)

SUBJECT: Economic Briefing for April 2005

Introduction and Summary

[1](#)1. (U) This cable summarizes selected recent economic events in Taiwan in April 2005:

--Taiwan Stock Market Up on KMT Trip to China

--New Insurance Director General

--Changhwa Bank Privatization on Hold

--More Funds for High Speed Rail

-- Taiwan Flat Panel Production

--A Flurry of IPR Raids

END INTRODUCTION AND SUMMARY.

Taiwan Market Reacts Favorably to KMT Chairman's China Trip

[1](#)2. (U) KMT Chairman Lien Chan's April 25-May 3 "journey of peace" to Mainland China and his meeting with PRC President Hu Jintao gave a small boost to Taiwan business sentiment and stock valuations. Taiwan's TAIEX stock market index increased by about 60 points, or about 1.5 percent, during the visit. Stock prices of Taiwan's leading listed companies with major investment in China increased by 2.7-7.9 percent, indicating slightly increased optimism on cross-straits economic relations. Taiwan's agricultural and tourism sectors generally welcomed potential business opportunities that could result from the PRC's offer to liberalize controls on tourism to Taiwan and eliminate import tariffs on 12 Taiwan's fruit exports to the PRC.

Financial Supervisory Commission Insurance Bureau

[1](#)3. (U) Secretary General of the Financial Supervisory Commission (FSC) (Thomas) Huang Tien-mu was promoted to Director General of the FSC Insurance Bureau (IB). Dr. Huang replaced Mark Wei, who will join a private financial firm. Huang met with AIT on April 18 to discuss his views on Taiwan's insurance industry (septel). His educational background includes a doctorate in public administration from the University of Southern California.

Changhwa Bank Privatization on Hold

[1](#)4. (U) On April 29, the Ministry of Finance (MOF) instructed the board of directors of state-owned Changhwa Commercial Bank (CCB) to delay announcement of the winning bid and bidder for a controlling stake in the company. The sole remaining bidder, an investment consortium headed by Japan's Shinsei Bank, reportedly offered NT\$13 per share for the CCB global depository receipts (GDRs), about 40 percent under the average share price in the three months preceding the auction. Taiwan's MOF wants to negotiate further with the Shinsei consortium over the price and other arrangements. The consortium led by ING Bank gave up its bid in early April.

[1](#)5. (U) CCB was slated to become the first Taiwan state-owned bank sold to foreign investors. The CCB planned to award 1.4 billion Global Depository Receipt (GDR) shares,

equivalent to 22% of equity, to the high bidder. The GDR bid winner would then be permitted to purchase another 18% ownership stake in CCB directly from the government. This would enable the winning bidder to have effective control with a 40% equity stake. The sale of CCB would meet the publicized financial reform goal of selling at least one state-owned bank to foreign investors before the end of 2005.

A Ray of Hope on High-Speed Rail Finance

16. (SBU) On April 28 the Taiwan High-speed Rail Company (THSRC) successfully raised NT\$6.0 billion (USD 190 million) additional capital by issuing preferred shares, as called for in its eleventh financial plan. The investors included China Steel Corporation with NT\$ 3 billion, Fubon Group with NT\$ 900 million, Evergreen Group with NT\$ 500 million, and Continental Engineering Corporation with NT\$ 400 million. With this capital THSRC can continue to borrow funds from its bank consortium to finance construction of the railway. However, THSRC's plan calls for it to raise another NT\$ 7.5 billion (about USD 240 million) by the end of May through preferred stock issuances. Chairman Earle Ho of Chinese National Federation of Industry, who is also a board director of THSRC, publicly promised the project would earn money in the future. THSRC and the Ministry of Transportation and Communications still indicate the high-speed rail will open on time on October 31, 2005, but many observers are skeptical. An engineer on the project told AIT/T that THSRC might begin limited special service on time, but that full operations were not likely to begin before February 2006.

Taiwan Fails to Surpass South Korea in TFT-LCDs

17. (U) The Taiwan government has set the goal of surpassing South Korea in TFT-LCD production. However, Taiwan producers failed to take the top spot in 2004 as some had predicted. According to Taiwan's Photonics Industry and Technology Development Association, Taiwan produced USD 14.4 billion worth of TFT-LCDs, giving it a 44-percent share of the global market last year. In comparison South Korea took 46 percent of the market with production valued at USD 16.8 billion. Market research firm iSuppli predicts the race will be tight in 2005. Taiwan may have the capacity to produce more than South Korea, but component shortages may prevent Taiwan firms from producing at capacity. iSuppli predicts Taiwan could overtake South Korea in 2006.

18. (U) Taiwan is building the capacity to stay competitive. Taiwan's AU Optonics Company, the island's largest TFT-LCD producer, in April announced plans to invest NT\$35 billion to build a "7.5-generation" plant. The plant would focus on production of 42- and 47-inch LCD products. Following AU Optonics, Chi Mei Optoelectronics Company announced it would build a 7.5-generation and a 5.0-generation TFT-LCD flat panel plant. Output of Chi Mei's 7.5-generation plant will be mainly used in televisions while output of the 5.0-generation plant will focus on the computer market. By the end of 2005, Taiwan will have 24 TFT-LCD factories to Korea's 19.

A Flurry of IPR Raids

19. (U) In mid-April, Taiwan's Intellectual Property Office (TIPO) announced that the reward for information leading to the arrest or indictment of counterfeiters had been raised to NT\$500,000 from NT\$200,000. Working on a tip from Microsoft, Taiwan's Criminal Investigation Bureau (CIB) raided a firm and an office near Taipei City and arrested four suspects who had allegedly imported bogus Microsoft certificates of authentication from Mainland China and then sold them to local and foreign buyers. Taiwan police and Ministry of Justice Investigation Bureau (MJIB) conducted numerous other raids during April seizing counterfeit Nike, Puma, Adidas, Louis Vuitton, Chanel and other products with a market value of over NT\$200 million.

PAAL